

Modified by:

**Leo Grohowski**

*Chief Investment Officer*

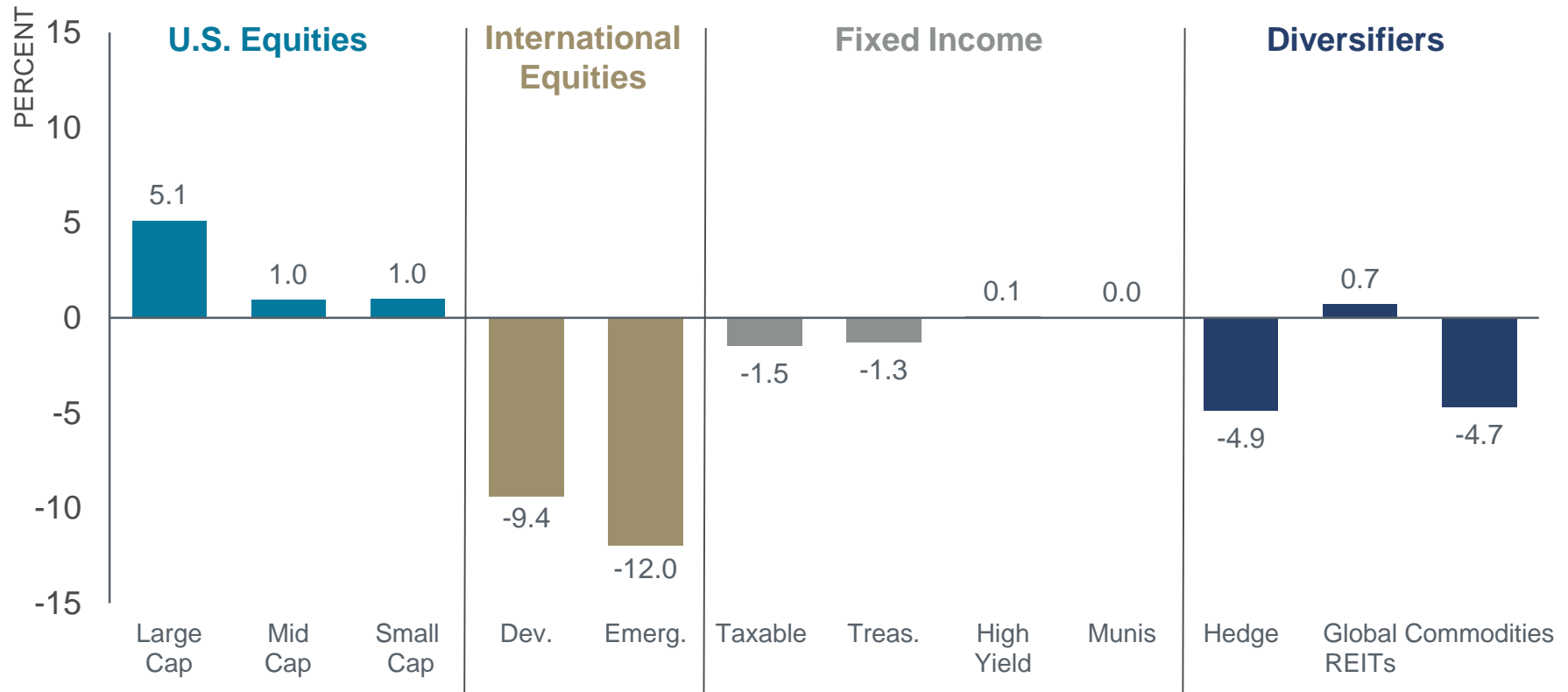
# Quarterly Investment and Economic Teleconference

December 6, 2018



**BNY MELLON**  
WEALTH MANAGEMENT

# Year-to-Date Market Performance

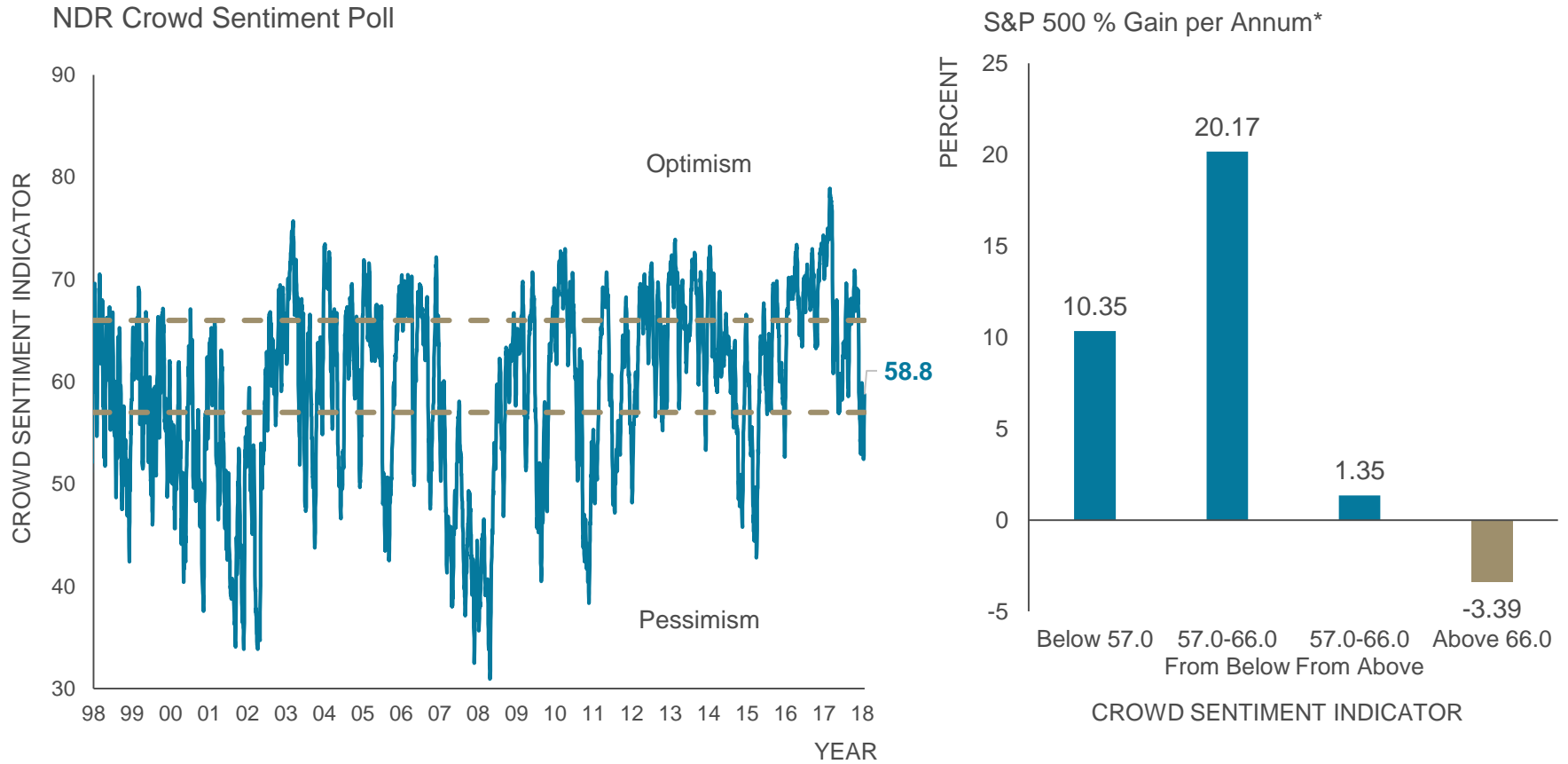


As of 11/30/18.

Indices used: Large Cap: S&P 500; Mid Cap: Russell Midcap; Small Cap: Russell 2000; Developed International: MSCI EAFE (Net); Emerging Markets: MSCI EMF; Taxable Fixed Income: Barclays U.S. Aggregate; High Yield Fixed Income: Barclays High Yield; Treasuries: Barclays U.S. Treasury; Muni: S&P Intermediate High Quality; Hedge: HFRX Equity Hedge Index; Global Real Estate: FTSE EPRA/NAREIT; Commodities: Bloomberg Commodity TR USD.

Sources: Bloomberg L.P. and Morningstar. Past performance is not indicative of future performance.

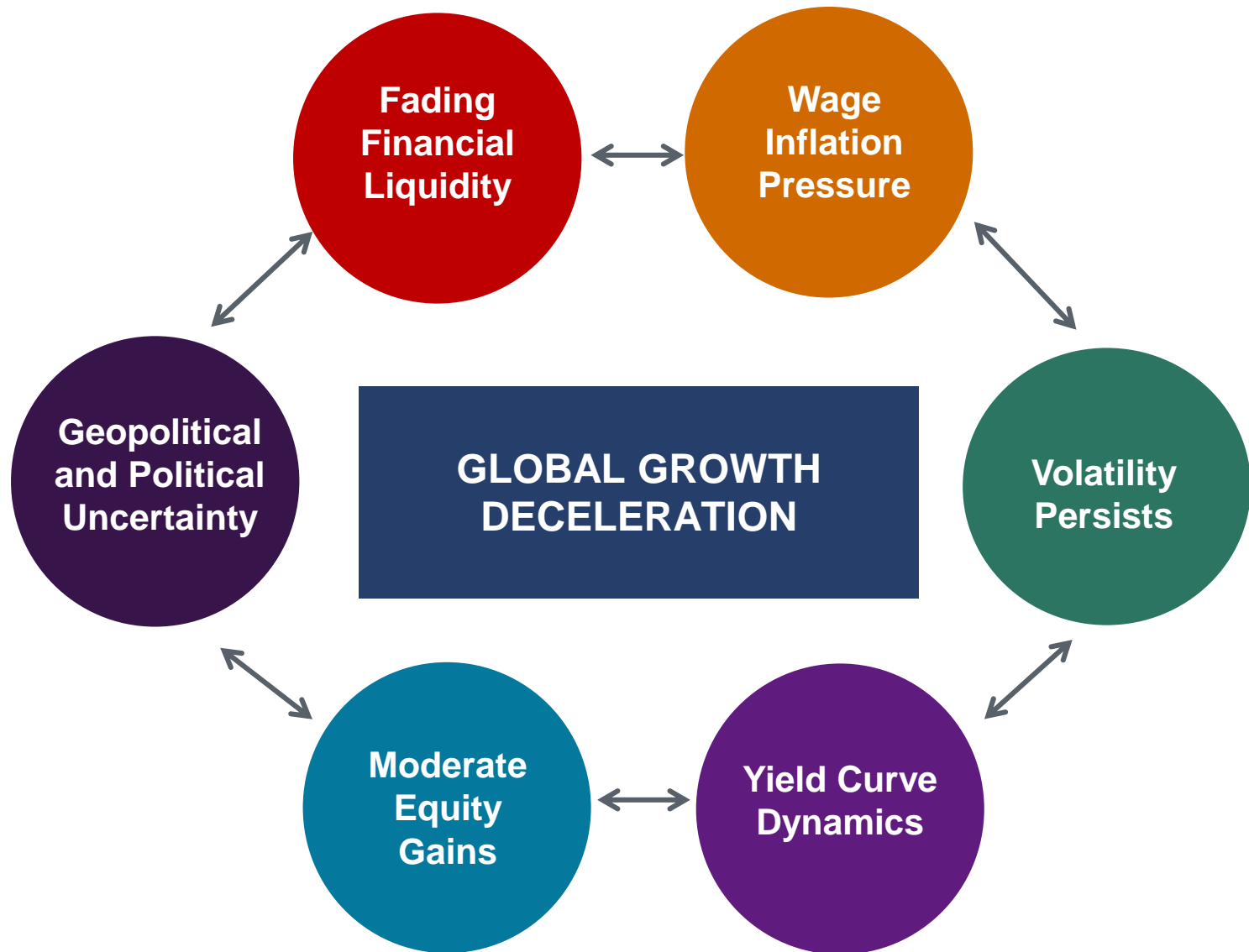
# Investor Optimism Disrupted



As of 12/4/18. Source: Ned Davis Research  
 \*12/1/95 – 12/4/18.

# Our Key Investment Themes

2019

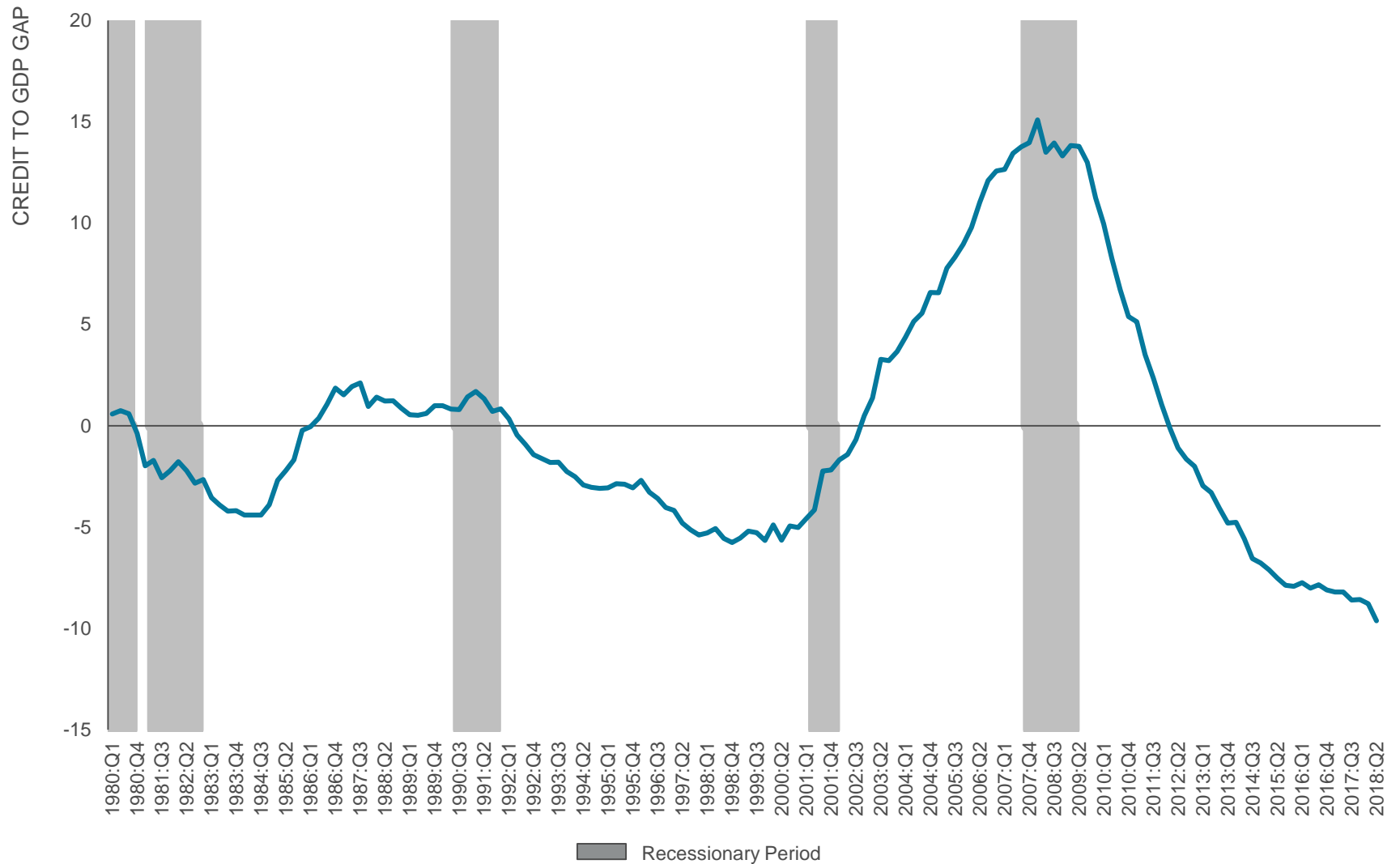


# U.S. Economic Themes

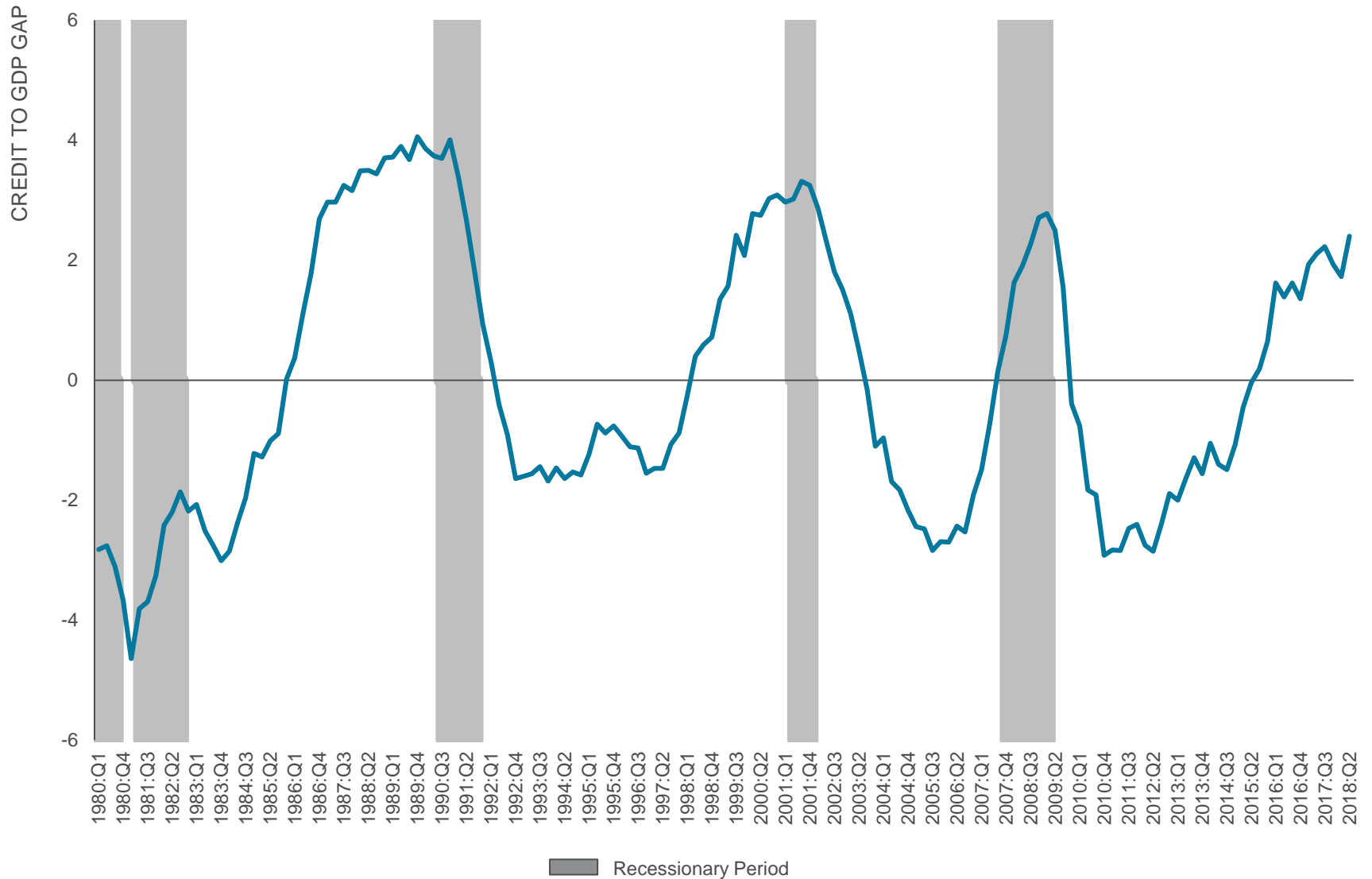
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- I. Long Economic Expansion
- II. Four Phase Deceleration
- III. Multi-Year Ebbing of Financial Liquidity – Country-Specific and Sector Specific
- IV. Direction of Central Bank Policy
- V. Trade and its Potential Impact on Growth

# Household Sector Credit-to-GDP Gap

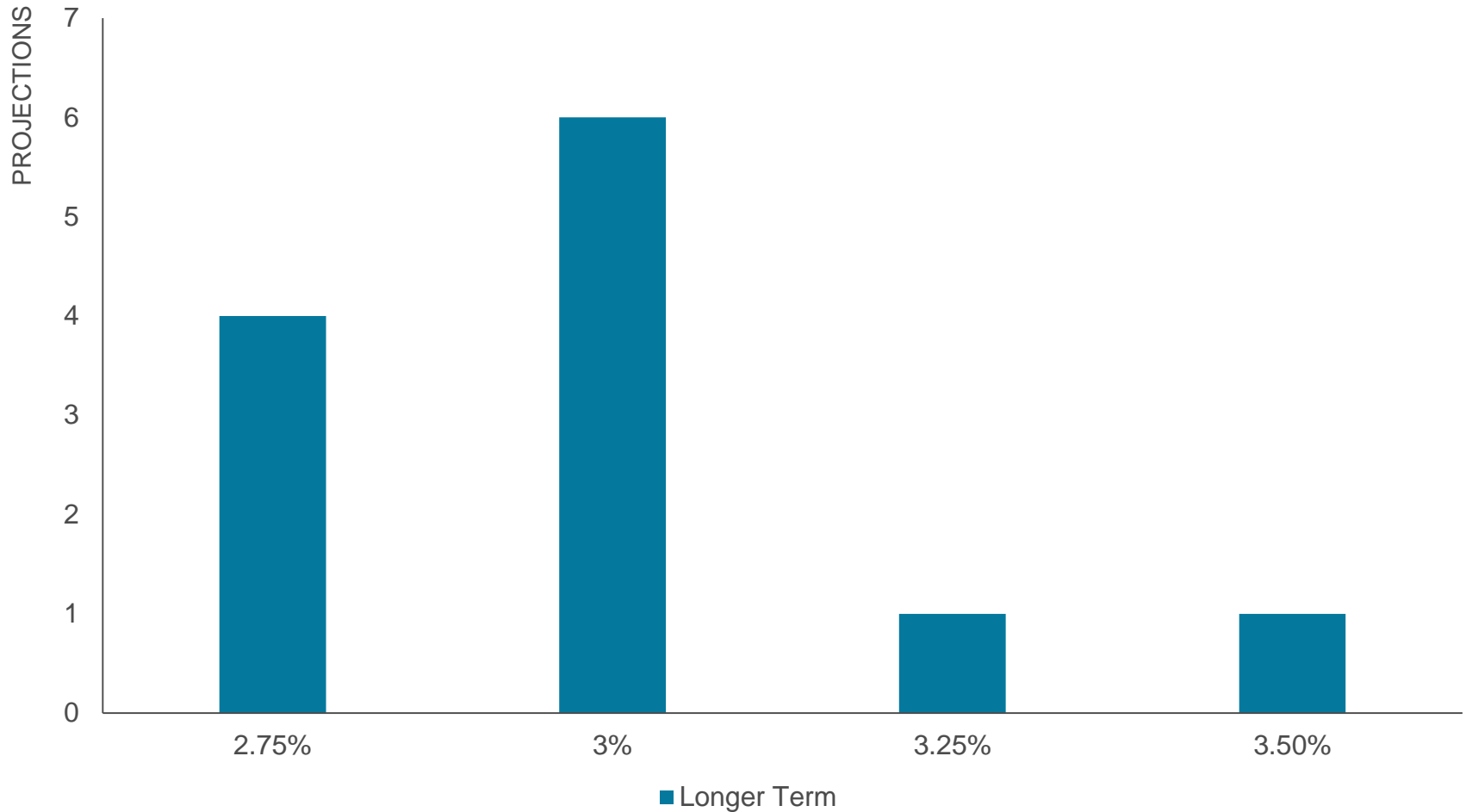


# Corporate Business Sector Credit-to-GDP Gap



# Federal Funds Rates Targets

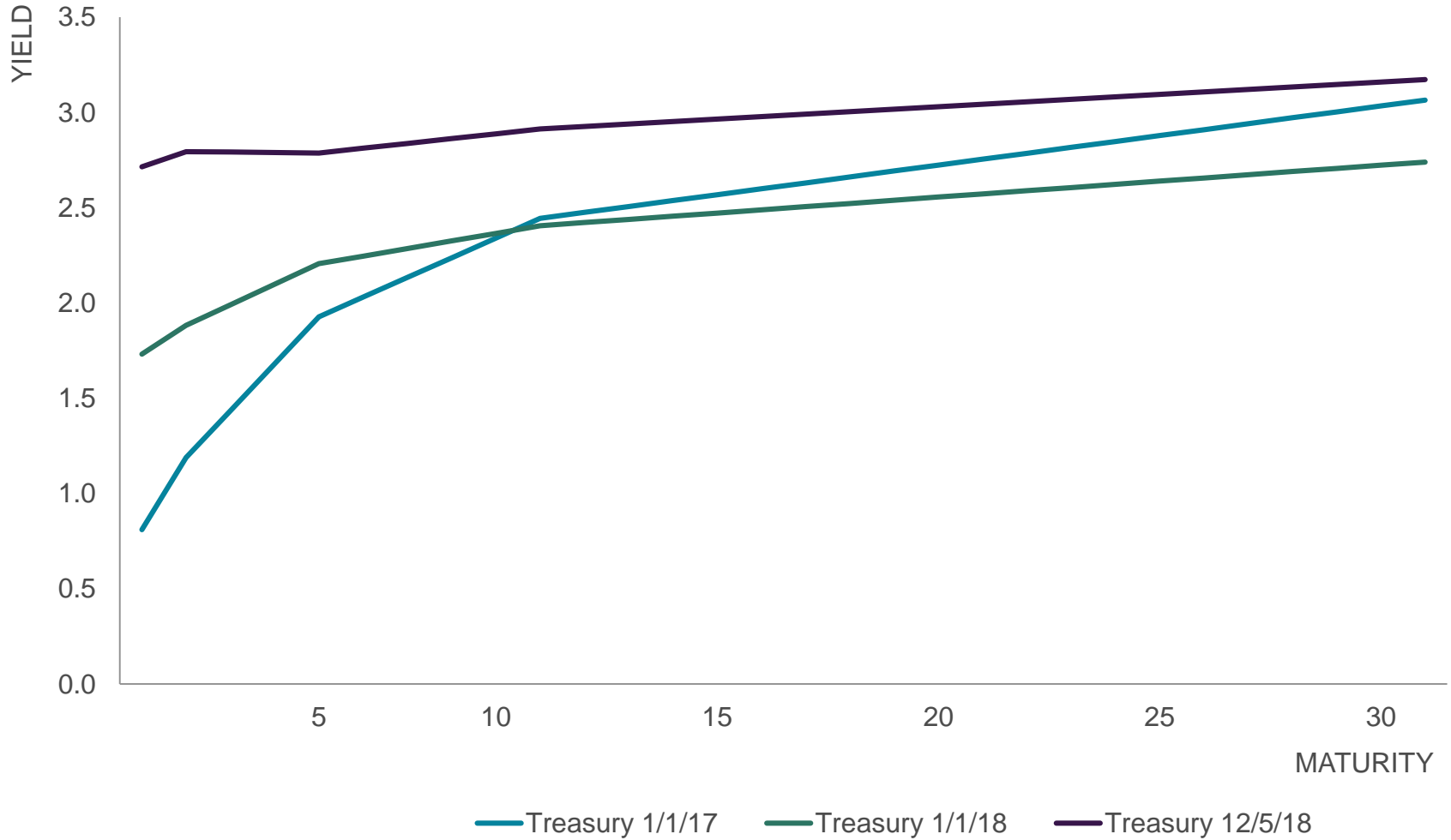
## Longer Term Projected Rates Target By Participants





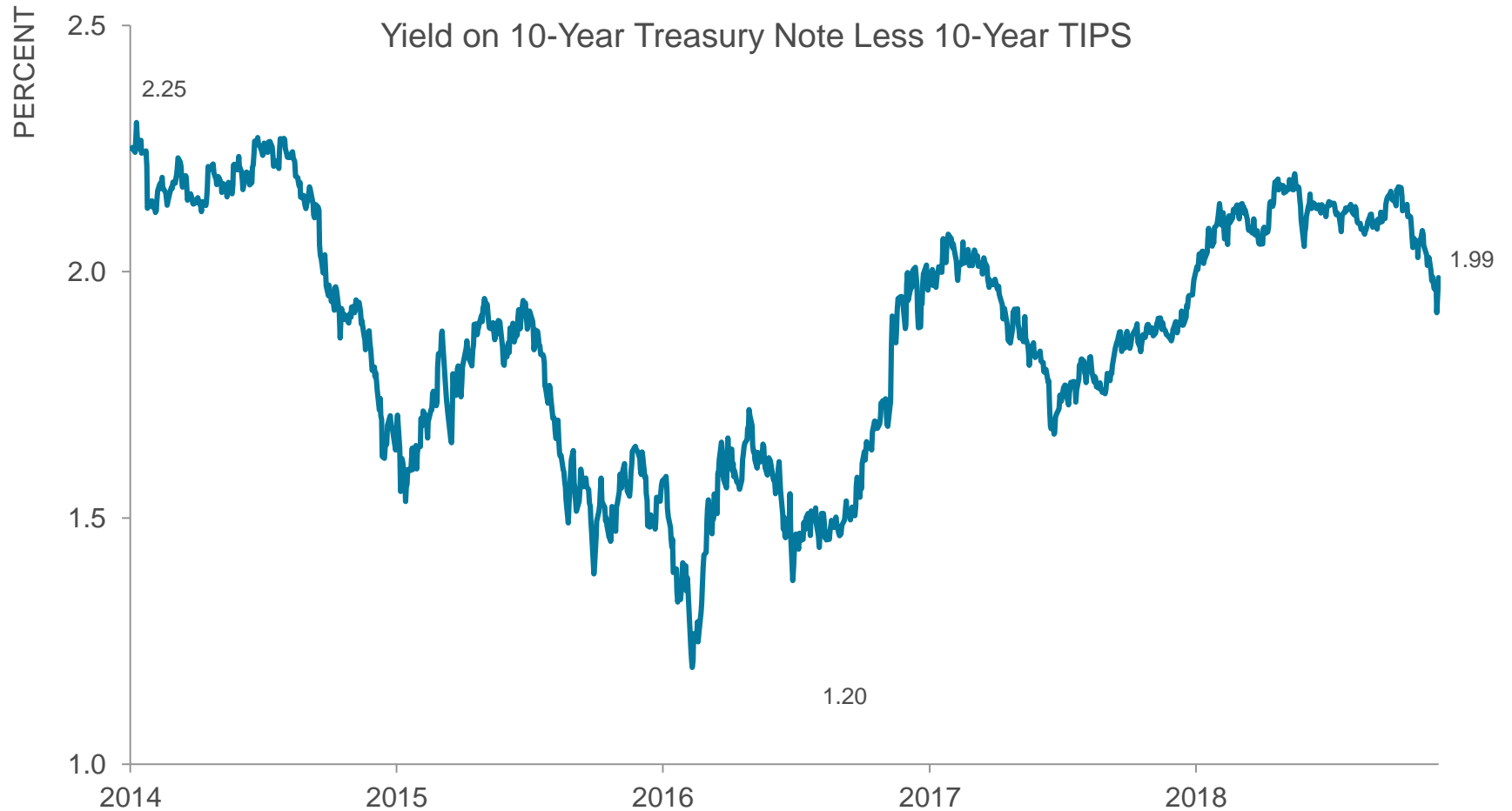
# Yield Curve Shifts

A Situation We Are Monitoring



# Break-Even Inflation Rate

## Rolling Implied Inflation On 10-Year Treasury



# Interest Rates: End of the 30-Year Bond Bull Market?

## 10-Year Constant Maturity Treasury Note Yields

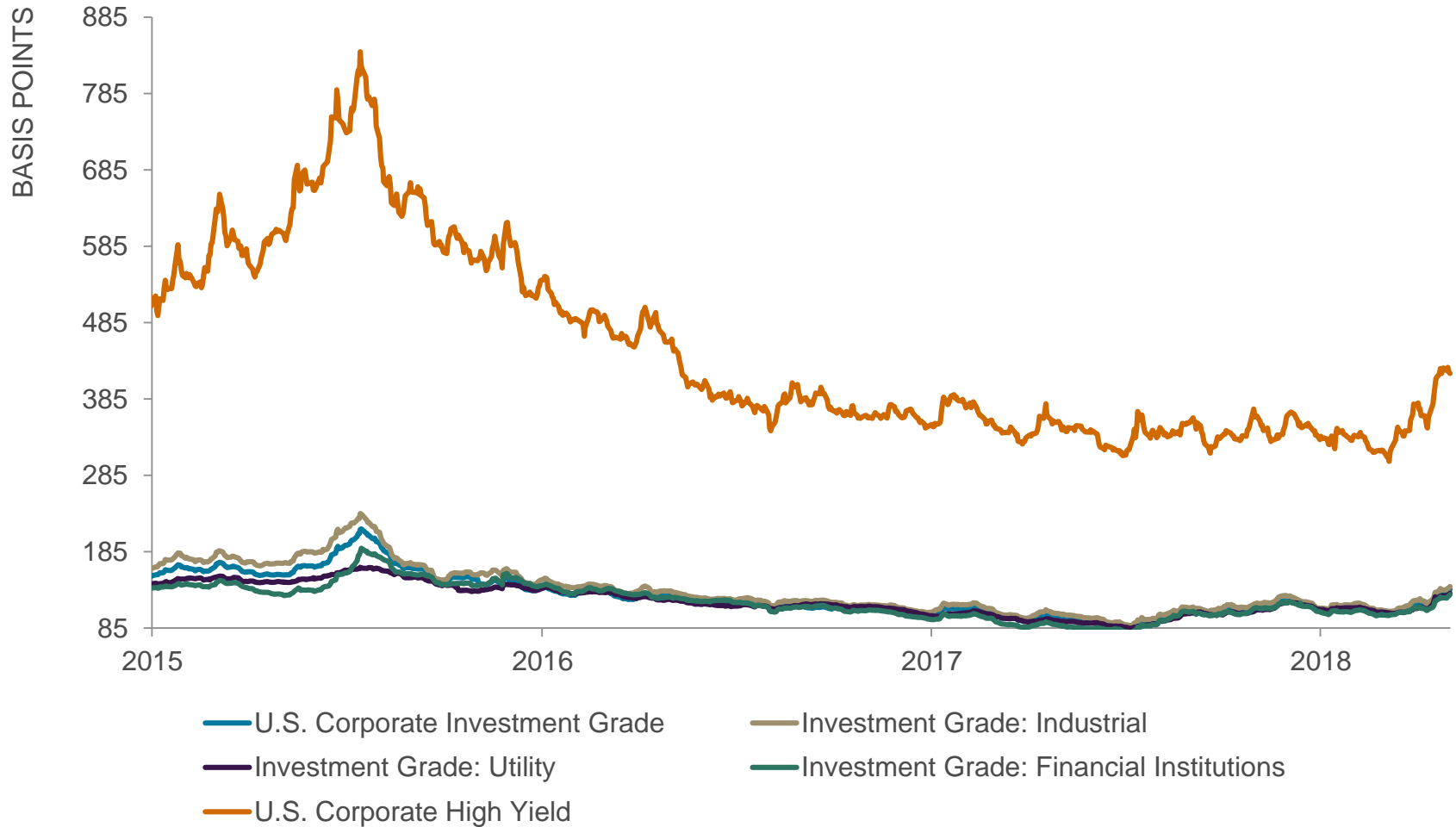


# Fixed Income Supply



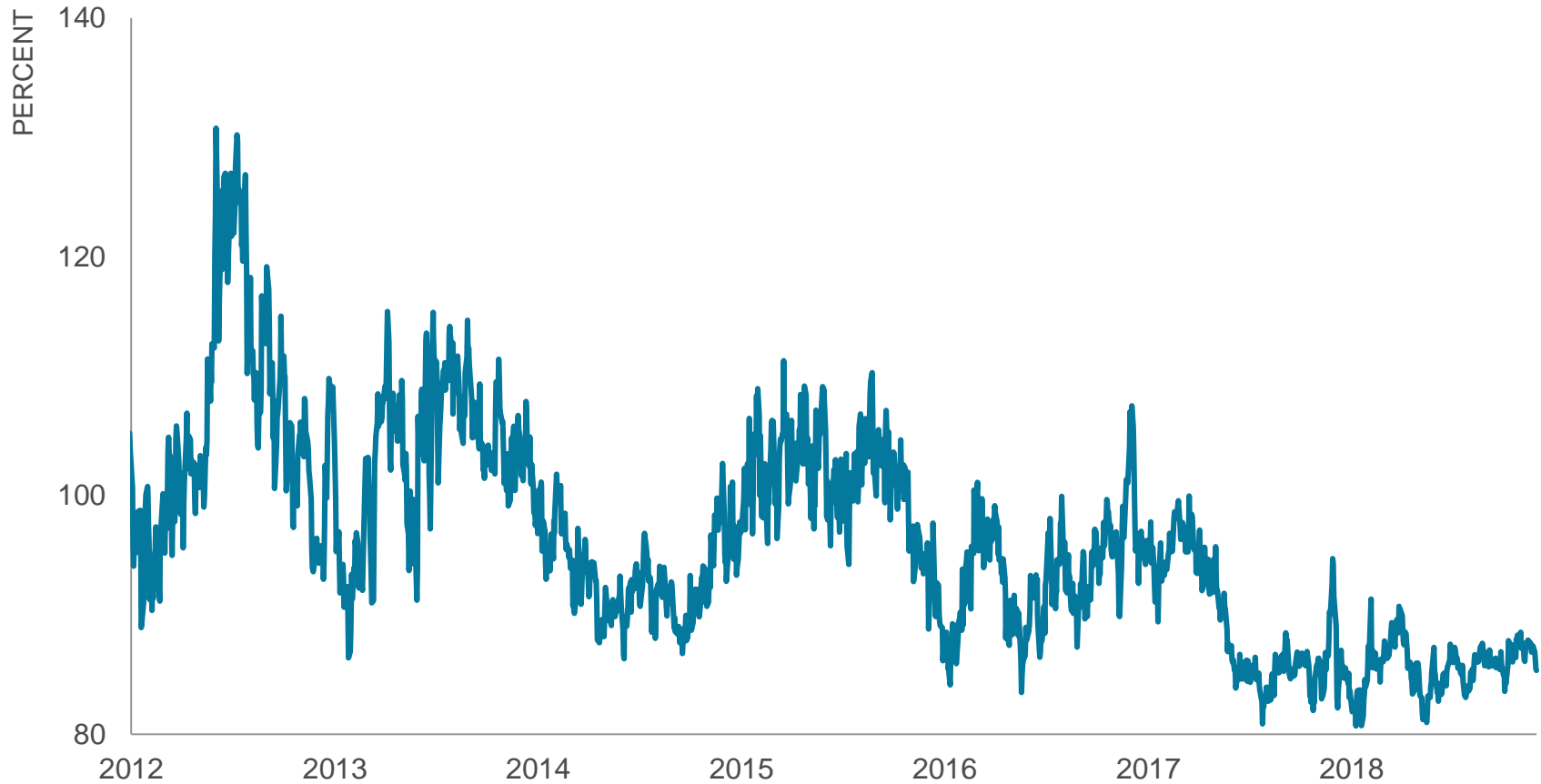
# Investment Grade Credit Spreads

## 3-Year Option Adjusted Spread Changes

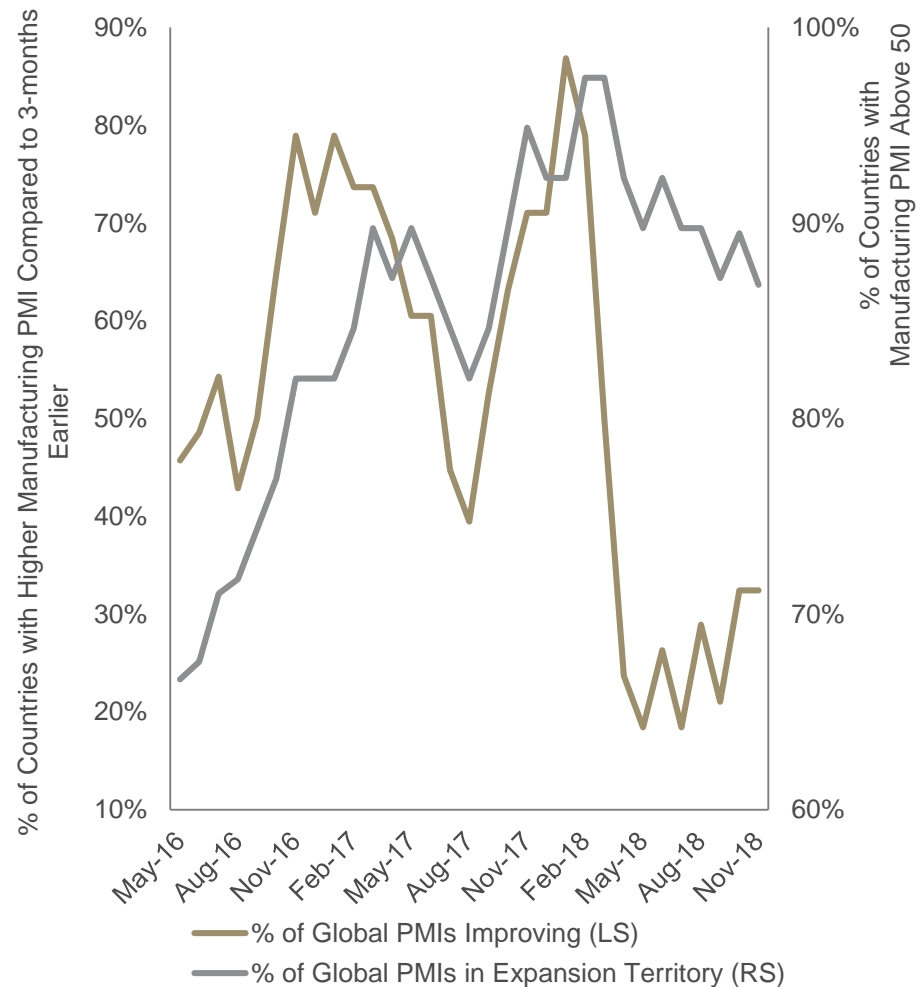
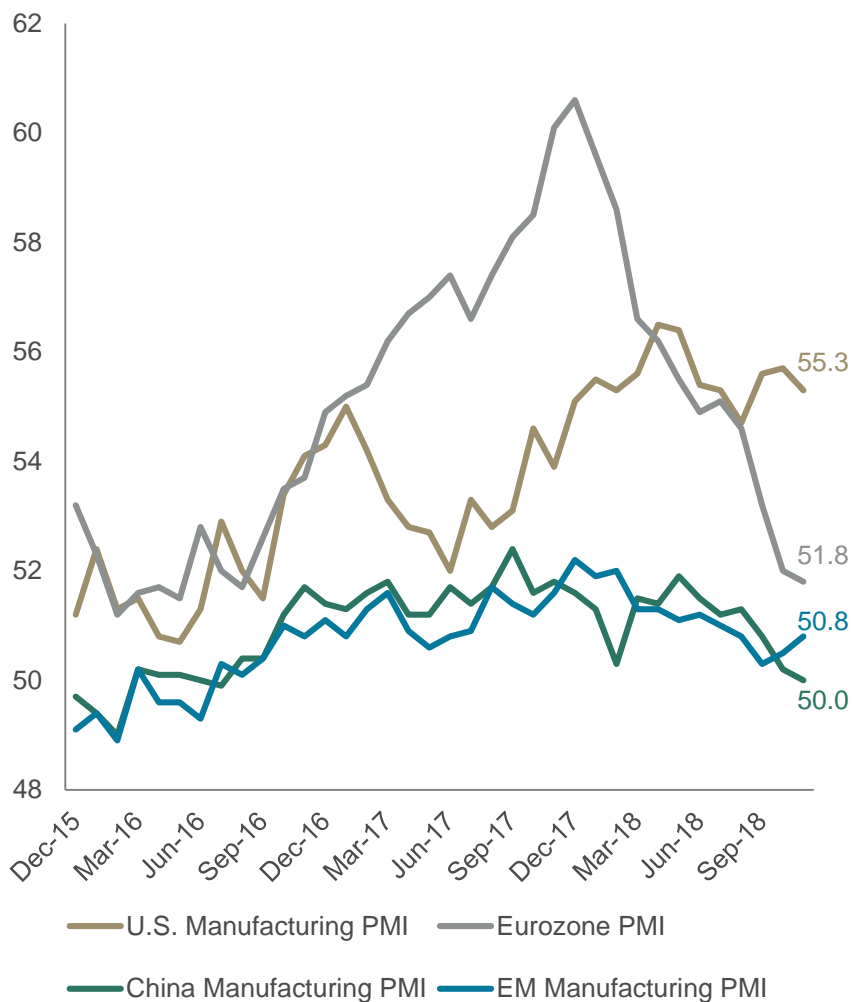


# Muni Yields as a Percentage of Treasuries

AAA 10-Yr Municipal Bond Yields As Percentage of 10-Yr Treasury Yields

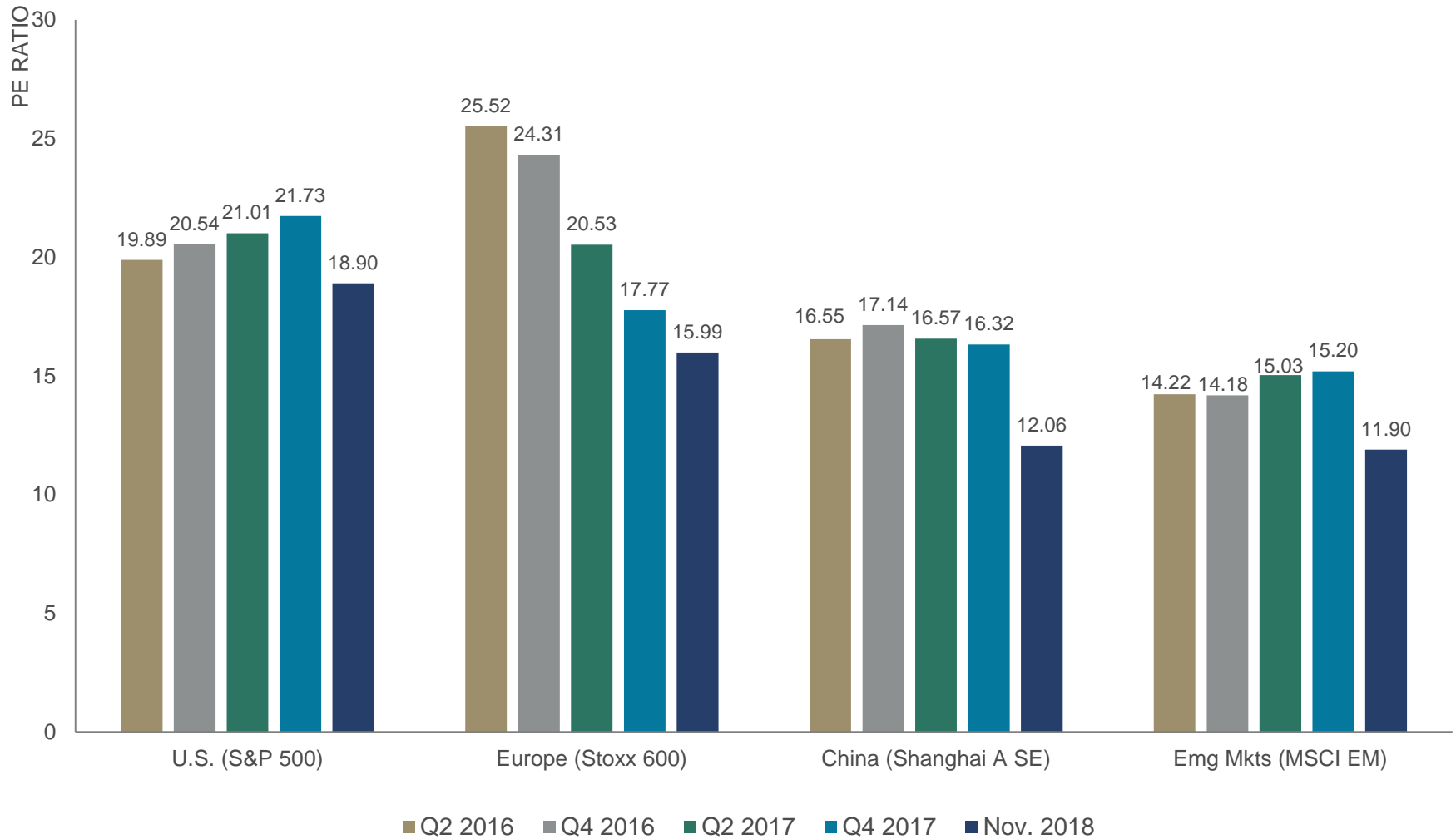


# Global Manufacturing PMIs



For calculations shown above, 3-month moving average manufacturing PMI (purchasing managers index is used). Countries include China, India, Brazil, Russia, Mexico, Indonesia, Turkey, Poland, Thailand, South Africa, Malaysia, Philippines, Nigeria, Vietnam, Hungary, Kenya, U.S., Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, U.K., Australia, Austria, Czech Republic, Denmark, Ireland, Israel, South Korea, Netherlands, Norway, New Zealand, Singapore, and Spain. Monthly data through October 2018. Source: BNY Mellon Global Investment Strategy using data from Bloomberg and FactSet.

# Global Equity Valuations





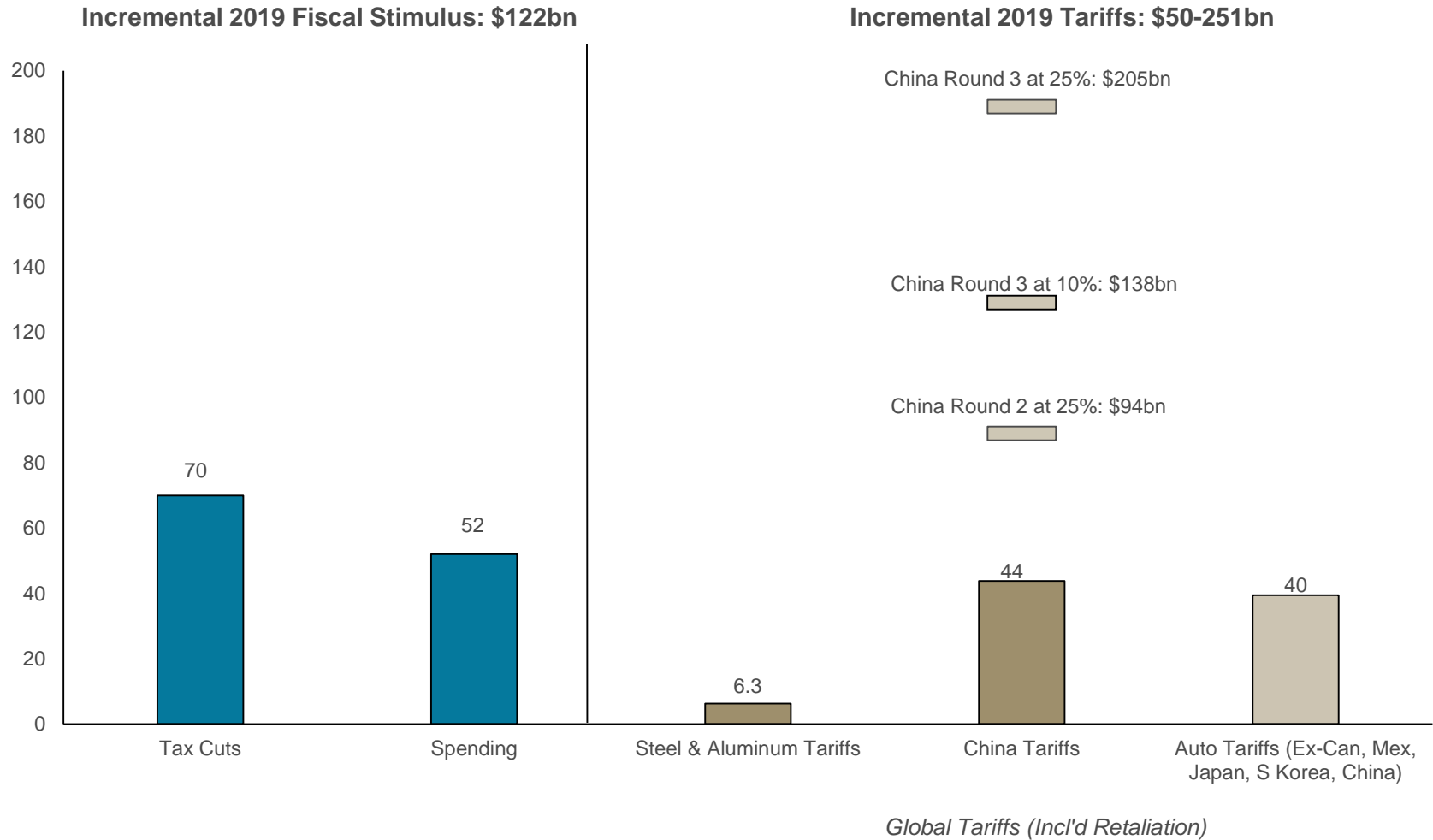
# Global Equity Markets

## Year-to-Date Performance



# Will Tariffs Out-weigh Fiscal Stimulus in 2019?

Breakdown of Current Year 2019 Tax Cuts, Stimulus & Tariffs, \$Bn

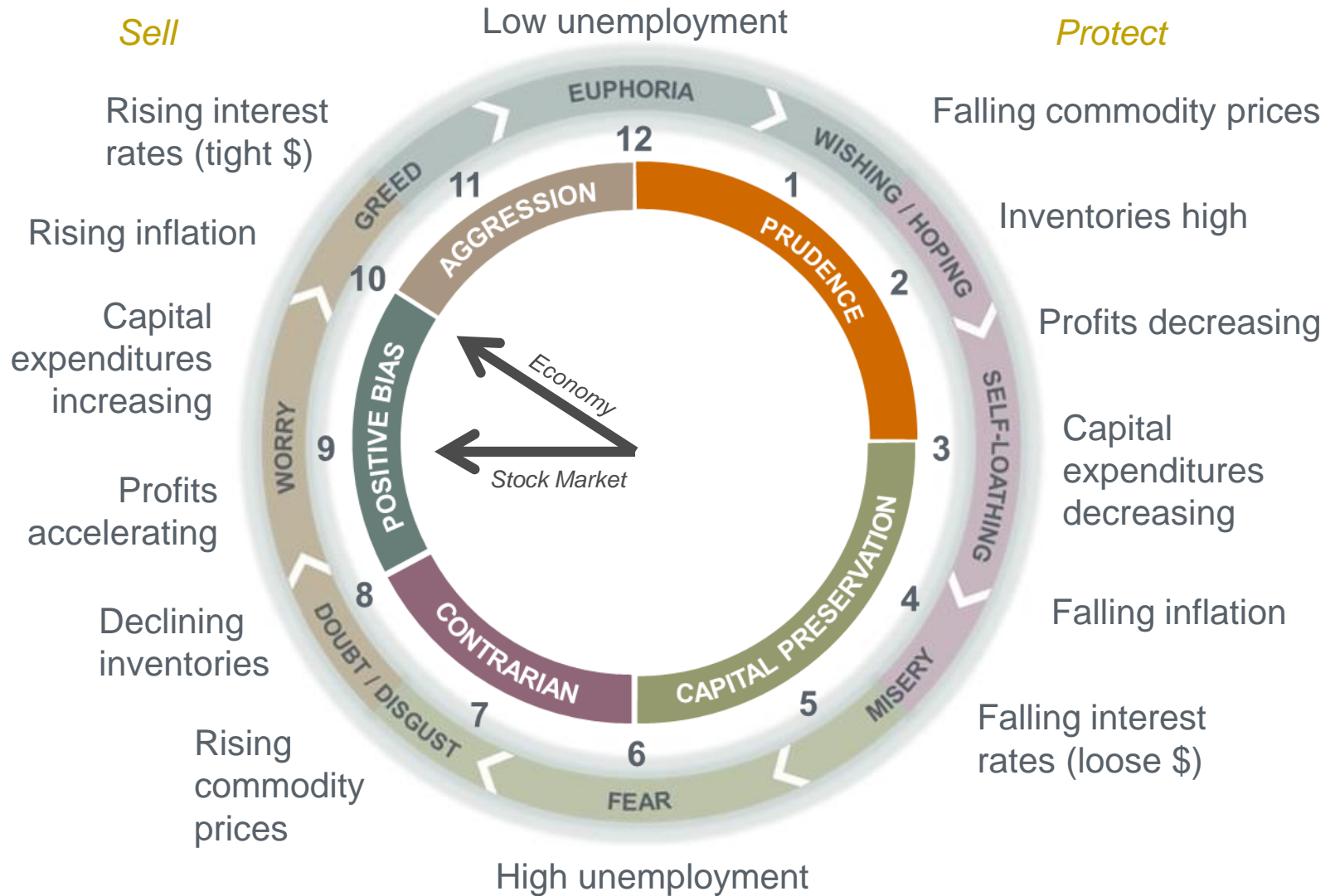


# Tendencies of a Bull Market Top

	2000	2007	Current	Comments
Blow-off top	●	●	●	Few signs of panic buying or speculative excess in public equity markets. S&P is currently below its 200-day MA after peaking in January.
Heavy inflows into equity market funds	●	●	●	Net inflows into equity mutual funds and ETFs is underwhelming while inflows into bond funds remains robust.
Big pick-up in M&A activity	●	●	●	M&A activity has picked up significantly this year from years in the past. In absolute dollar terms, activity it is near the historical highs.
IPO activity	●	●	●	Despite some high-profile new issues in 2017, deal volume and assets raised remain far below the pace exhibited in 2015.
Rising real interest rates	●	●	●	Real rates have moved higher and although not yet worrisome, they are worth watching.
Weakening upward earnings revisions	●	●	●	Upward earnings revisions remain at elevated levels.
Erosion in number of stocks making new highs	●	●	●	The numbers of companies making 52-week highs peaked in January.
Shift towards defensive leadership	●	●	●	Since the February 2016 low, cyclical shares have outperformed for the past two years. It is worth noting in the past month there has been a shift toward defensive shares.
Widening credit spreads	●	●	●	High-yield and investment grade credit spreads have moved higher recently but compared to a longer-term history are still contained.

● Tendency seen in current market    
 ● Somewhat evident in current market    
 ● Not evident in current market

# Interaction between the Economy and Stock Market



*Cheaper Capital: Borrow to Buy or Build*

# Asset Class Positioning

## Investment Strategy Committee Recommendations

	Underweight	Small Underweight	Neutral	Small Overweight	Overweight
<b>EQUITY</b>			◆		
Large Cap				◆	
Mid Cap			◆		
Small Cap			◆		
International Developed Large Cap			◆		
International Developed Small Cap			◆		
Emerging Markets		◆			
Private Equity			◆		
Private Equity-Real Estate			◆		
<b>FIXED INCOME</b>		◆			
Treasuries	◆				
Investment-grade Corporate	◆				
Tax-exempt		◆			
High Yield			◆		
<b>DIVERSIFIERS</b>				◆	
Real Estate (REITs)		◆			
Long/Short Hedge				◆	
Absolute Return Hedge				◆	
Managed Futures					◆
Commodities	◆				

# Long-Term Capital Market Return Assumptions

		10-Year Annualized Expected Return		
Asset Class		2018 Return Assumptions	2019 Return Assumptions*	Change in Assumption
Equity	U.S. Large Cap Equity	6.1%	6.2%	0.1%
	U.S. Mid Cap Equity	6.5%	6.5%	0.0%
	U.S. Small Cap Equity	7.0%	6.9%	-0.1%
	International Developed Equity	5.8%	6.2%	0.4%
	Emerging Equity	8.3%	8.5%	0.2%
	U.S. Private Equity <sup>1,2</sup>	8.0%	8.1%	0.1%
Fixed Income	U.S. Treasury Bills	2.1%	2.6%	0.5%
	U.S. Treasury	2.3%	3.1%	0.8%
	U.S. Aggregate	2.7%	3.5%	0.8%
	U.S. Investment Grade Credit	3.1%	3.9%	0.8%
	U.S. Intermediate Municipal	2.3%	3.0%	0.7%
	U.S. High Yield	4.3%	5.1%	0.8%
Diversifiers	Global REIT	6.2%	6.3%	0.1%
	Hedge Funds – Equity Hedge <sup>1,2</sup>	5.2%	5.5%	0.3%
	Absolute Return <sup>1,2</sup>	4.2%	4.6%	0.4%
	Hedge Funds – Managed Futures <sup>1,2</sup>	4.6%	5.4%	0.8%
	Commodities	2.0%	2.2%	0.2%
Economy	U.S. Inflation	2.0%	2.2%	0.2%
	U.S. Real GDP Growth	2.1%	2.0%	-0.1%
	U.S. Short-Term Interest Rate	2.5%	2.7%	0.2%

\*2019 assumptions are preliminary.

1. Consistent with the Representative Index, returns are net of management fees. 2. The Representative Index is not investable. Returns are based on manager averages. Actual results may vary.

22 The capital market assumptions are BNY Mellon's estimates based upon historical market performance and the current market environment. References to future expected returns are not promises of actual returns that may be realized, and should not be relied upon. The forecasts contained herein are for illustrative purposes only and are not guarantees of performance. In addition, the forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so.

# Thank You!

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– Questions



# Survey – Quarterly Investment and Economic Update – December 6, 2018

Your opinions and suggestions are extremely valuable to us. Please take a few minutes to respond to these questions so that we may improve future seminars. Thank you for your time and comments.

1. How useful was the program to you? *Please circle one.*  
not useful                      somewhat useful                      very useful  
1                      2                      3                      4                      5
2. Was the objective of the program met?  
no                      not sure                      yes
3. The presentation and presentation materials were:  
too detailed                      not detailed enough                      appropriate
4. The presentation was:  
too long                      too short                      the right length
5. The presentation skills of the presenters were:  
Poor                      fair                      excellent  
1                      2                      3                      4                      5
6. Would you recommend this program to an associate or friend?  
no                      not sure                      yes
7. The most convenient time for a program is:  
morning                      mid-day                      evening
8. The teleconference method of delivery was:  
Poor                      fair                      excellent  
1                      2                      3                      4                      5
9. What other program topics are of interest to you?  
\_\_\_\_\_
10. Any additional comments?  
\_\_\_\_\_
11. I am interested in receiving more information about wealth management strategies.  
Name \_\_\_\_\_  
Email \_\_\_\_\_

## **MANDATORY ATTENDANCE RECORD FOR CONTINUING EDUCATION CREDIT**

Please complete this section of the form if you are interested in obtaining CE Credit.

Print Full Name Clearly \_\_\_\_\_

Firm Name with Complete Address \_\_\_\_\_

Email \_\_\_\_\_

Type of Credit, please circle: CFP, CPA

CFPs MUST give the last 4 digits of Social Security # \_\_\_\_\_

State & Bar Number Mandatory for Legal Credit \_\_\_\_\_

Please return this form to WMMarketingmailbox@bnymellon.com



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WEALTH MANAGEMENT



# Disclosure Appendix

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